

# Department of Finance

## Second Quarter Report 2014-2015

Hon. Roger Melanson

Minister of Finance

November 2014

## **2014-2015 Second Quarter Report**

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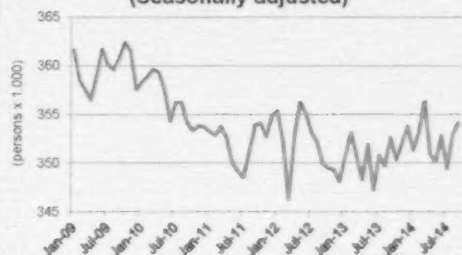
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Think Recycling!

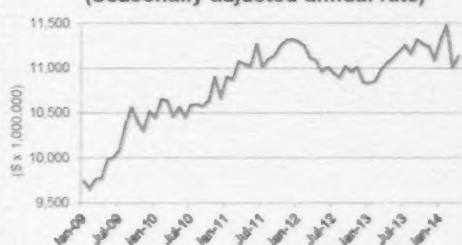
## 2014 Economic Update

**Employment**  
(Seasonally adjusted)



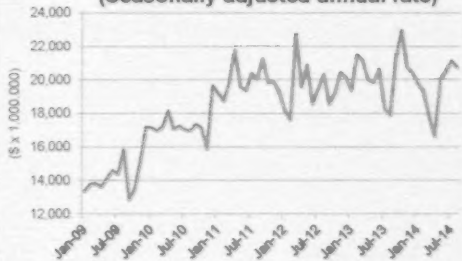
Source: Statistics Canada

**Retail trade**  
(Seasonally adjusted annual rate)



Source: Statistics Canada

**Manufacturing sales**  
(Seasonally adjusted annual rate)



Source: Statistics Canada

**New Brunswick Economic Indicators**

	2012	2013	2014F
Real GDP	-1.1	0.0	1.1
Wages and salaries	1.8	1.5	1.5
Employment	-0.2	-0.1	0.6
Unemployment Rate (%)	10.2	10.4	10.3
Consumer Price Index	1.7	0.8	1.4

Source: Statistics Canada

% change unless otherwise indicated

- The International Monetary Fund (IMF) revised its global growth forecast downward, to 3.3 per cent, in its Fall World Economic Outlook. This revision is largely due to weaker-than-expected global activity in the first half of 2014.

- U.S. real GDP increased at an annual rate of 4.6 per cent in the second quarter of 2014. This gain largely offsets weakness in Q1, putting growth back on par with beginning-of-the-year expectations. The IMF is now projecting growth of 2.2 per cent for 2014.

- As of second quarter, Canadian real GDP is up 2.5 per cent over prior year levels. The abrupt slowing in global economic growth has once again delayed the expected pickup in exports and business investment. However, the lower Canadian dollar should offset some of this weakness.

- The Department of Finance projects real GDP growth for New Brunswick of 1.1 per cent for 2014. This compares to the consensus among private sector forecast of 0.9 per cent for 2014.

- Employment is up 0.5 per cent over prior year levels, with gains in full-time employment (+1.2%) sufficient to offset declines in part-time employment (-2.7%). Gains were concentrated in the services-producing sector (+2.4%), while the goods-producing sector (-5.9%) experienced declines in core industries.

- Following a slow start to the year, caused in part by maintenance activity at the Saint John Refinery, exports and manufacturing have rebounded in recent months, and are in a position to post modest growth over 2013 levels.

- Despite improvement in many areas of the economy, wages and salaries has grown by 0.8 per cent and remains well below the 10-year average growth rate of 3.5 per cent.

- Consumer spending continues to build on the upward momentum displayed over the second half of 2013, with retail trade up 3.3 per cent, on a year-to-date basis.

- Consumer inflation in the province has averaged 1.6 per cent, on a year-to-date basis, slightly lower than the national growth rate of 1.9 per cent.

## 2014-2015 Fiscal Update

Based on second quarter information, there is a deficit of \$377.2 million for 2014-2015. This is an improvement of \$13.9 million compared to the budget deficit of \$391.1 million.

Net debt is projected to increase \$512.4 million year-over-year, a decrease of \$18.3 million from the budget estimate of \$530.7 million.

### Revenue:

Revenue is \$78.5 million higher than budget. The major variances include:

- Conditional Grants are up \$66.1 million mainly due to federal recoveries for Disaster Financial Assistance and one-time funding for New Brunswick related to joining the Cooperative Capital Markets Regulatory System.
- Return on Investment is up \$28.9 million primarily as a result of higher projected net income for NB Power. NB Power's net income increased mainly due to the transition to a shared risk pension plan and investment gains on funds invested for future nuclear decommissioning and used fuel management. This was partially offset by costs related to post-tropical storm Arthur and a longer than expected planned maintenance outage at the Point Lepreau Nuclear Station.
- Special Operating Agency revenue is up \$16.0 million mostly due to the new Canada/New Brunswick Federal Gas Tax Fund.
- Metallic Minerals Tax revenue is higher by \$6.3 million due to a tax audit.
- Provincial Real Property Tax revenue is anticipated to be lower by \$21.3 million due to changes in the assessment base.
- Harmonized Sales Tax is projected to decrease \$11.4 million from budget because of an anticipated weakening in NB share of the HST revenue pool.
- Corporate Income Tax is lower by \$10.8 million attributable to an anticipated negative prior-year adjustment related to the 2013 taxation year.
- Tobacco Tax is down an estimated \$9.2 million as a result of lower sales.

## Expense:

Total expenses are projected to be \$64.5 million higher than budget. More than one-third of this total, however, is offset by additional revenue.

The major variances include the following:

- Education and Early Childhood Development (\$37.7 million over): Mainly due to a projected over-expenditure in the Elementary and Secondary Education program as a result of planned improvement and reduction initiatives not being implemented.
- Efficiency NB (\$3.0 million over): Due to an increase in program applications resulting from the previously announced closure of the Residential Energy Efficiency Program.
- General Government (\$7.3 million under): Primarily due to projected under-expenditure in Supplementary Funding due to lower central salaries and other centrally-managed funds.
- Government Services (\$4.0 million over): Mainly due to reprioritization of initiatives associated with shared services opportunities.
- Health (\$28.8 million under): Mainly due to projected under-expenditures in pharmaceutical programs. This is partially offset by a projected over-expenditure in the Medicare program.
- Legislative Assembly (\$1.9 million over): Due to unanticipated non-discretionary costs that Elections NB is expected to incur associated with both municipal and provincial elections and by-elections in 2014.
- Public Safety (\$28.2 million over): Primarily due to Disaster Financial Assistance funding in relation to the spring 2014 flooding and post-tropical storm Arthur. This is partially offset by additional federal revenue.
- Social Development (\$8.3 million over): Due to lower than anticipated social assistance caseload decline, implementation delays in achieving efficiencies, and higher than anticipated funding for nursing homes due to collective bargaining increases.
- Transportation and Infrastructure (\$9.6 million over): Due to projected over-expenditures in Winter Maintenance and increased repairs required under the Summer Maintenance program due to the difficult winter in the prior year.
- Capital Account expense (\$6.2 million over): Higher than budgeted capital account expenses in the Department of Transportation and Infrastructure, primarily due to significant weather-related events such as the spring 2014 flooding and post-tropical storm Arthur.



# COMPARATIVE STATEMENT OF SURPLUS OR DEFICIT

Thousands

\$

	Year Ending March 31			Variance from Estimate
	2015 Estimate	2015 1 <sup>st</sup> Quarter	2015 2 <sup>nd</sup> Quarter	
<b>Revenue</b>				
Ordinary Account.....	7,677,344	7,669,392	7,741,152	63,808
Capital Account.....	56,311	54,862	55,235	(1,076)
Special Purpose Account.....	62,007	61,533	61,791	(216)
Special Operating Agencies (net).....	44,727	60,588	60,705	15,978
Sinking Fund Earnings.....	195,700	195,700	195,700	0
<b>Total Revenue.....</b>	<b>8,036,089</b>	<b>8,042,075</b>	<b>8,114,583</b>	<b>78,494</b>
<b>Expense</b>				
Ordinary Account.....	7,894,060	7,885,328	7,947,787	53,727
Capital Account.....	41,926	47,997	48,144	6,218
Special Purpose Account.....	69,656	69,789	70,235	579
Special Operating Agencies (net).....	32,448	37,452	34,917	2,469
Amortization of Tangible Capital Assets.....	389,124	388,772	390,670	1,546
<b>Total Expense.....</b>	<b>8,427,214</b>	<b>8,429,338</b>	<b>8,491,753</b>	<b>64,539</b>
<b>Surplus (Deficit).....</b>	<b><u>(391,125)</u></b>	<b><u>(387,263)</u></b>	<b><u>(377,170)</u></b>	<b><u>13,955</u></b>

# COMPARATIVE STATEMENT OF ORDINARY ACCOUNT REVENUE BY SOURCE

Thousands

\$

	Year Ending March 31			Variance from Estimate
	2015 Estimate	2015 1 <sup>st</sup> Quarter	2015 2 <sup>nd</sup> Quarter	
<b>Taxes</b>				
Personal Income Tax.....	1,508,000	1,508,000	1,508,000	0
Corporate Income Tax.....	251,000	251,000	240,200	(10,800)
Metallic Minerals Tax.....	0	6,300	6,300	6,300
Provincial Real Property Tax.....	481,300	460,000	460,000	(21,300)
Harmonized Sales Tax.....	1,146,500	1,146,500	1,135,100	(11,400)
Gasoline and Motive Fuels Tax.....	240,000	240,000	240,000	0
Tobacco Tax.....	150,700	150,700	141,500	(9,200)
Pari-Mutuel Tax.....	600	600	600	0
Insurance Premium Tax.....	47,205	47,505	51,954	4,749
Real Property Transfer Tax.....	13,000	12,000	12,000	(1,000)
Large Corporation Capital Tax.....	0	0	0	0
Financial Corporation Capital Tax.....	27,000	27,000	27,000	0
<b>Sub-total: Taxes.....</b>	<b>3,865,305</b>	<b>3,849,605</b>	<b>3,822,654</b>	<b>(42,651)</b>
<b>Return on Investment.....</b>	<b>253,994</b>	<b>251,117</b>	<b>282,933</b>	<b>28,939</b>
<b>Licences and Permits.....</b>	<b>138,843</b>	<b>138,639</b>	<b>138,390</b>	<b>(453)</b>
<b>Sale of Goods and Services.....</b>	<b>291,607</b>	<b>287,444</b>	<b>288,397</b>	<b>(3,210)</b>
<b>Lottery and Gaming Revenues.....</b>	<b>145,730</b>	<b>145,730</b>	<b>147,227</b>	<b>1,497</b>
<b>Royalties.....</b>	<b>94,255</b>	<b>95,155</b>	<b>98,655</b>	<b>4,400</b>
<b>Fines and Penalties.....</b>	<b>8,164</b>	<b>8,061</b>	<b>8,070</b>	<b>(94)</b>
<b>Miscellaneous.....</b>	<b>48,315</b>	<b>53,655</b>	<b>53,261</b>	<b>4,946</b>
<b>TOTAL: OWN SOURCE REVENUE.....</b>	<b>4,846,213</b>	<b>4,829,406</b>	<b>4,839,587</b>	<b>(6,626)</b>
<b>Unconditional Grants – Canada</b>				
Fiscal Equalization Payments.....	1,665,950	1,665,950	1,665,950	0
Canada Health Transfer.....	682,400	682,400	686,700	4,300
Canada Social Transfer.....	267,500	267,500	267,500	0
Wait Times Reduction Transfer.....	0	0	0	0
Other.....	1,866	1,866	1,866	0
<b>Sub-total: Unconditional Grants – Canada.....</b>	<b>2,617,716</b>	<b>2,617,716</b>	<b>2,622,016</b>	<b>4,300</b>
<b>Conditional Grants – Canada.....</b>	<b>213,415</b>	<b>222,270</b>	<b>279,549</b>	<b>66,134</b>
<b>TOTAL: GRANTS FROM CANADA.....</b>	<b>2,831,131</b>	<b>2,839,986</b>	<b>2,901,565</b>	<b>70,434</b>
<b>TOTAL: GROSS ORDINARY REVENUE.....</b>	<b>7,677,344</b>	<b>7,669,392</b>	<b>7,741,152</b>	<b>63,808</b>

# COMPARATIVE STATEMENT OF ORDINARY ACCOUNT EXPENSE

Thousands

\$

Year Ending March 31

DEPARTMENT	2015 Estimate	2015 1 <sup>st</sup> Quarter	2015 2 <sup>nd</sup> Quarter	Variance	
				from Estimate \$	%
Agriculture, Aquaculture and Fisheries.....	36,564	36,564	37,564	1,000	2.7%
Economic Development.....	98,039	98,039	98,039	0	0.0%
Education and Early Childhood Development.....	1,085,771	1,085,771	1,123,432	37,661	3.5%
Efficiency New Brunswick.....	8,699	8,699	11,699	3,000	34.5%
Energy and Mines.....	9,130	9,130	9,130	0	0.0%
Environment and Local Government.....	136,903	136,853	136,001	(902)	-0.7%
Executive Council Office.....	17,247	17,247	17,247	0	0.0%
Finance.....	17,967	17,917	17,917	(50)	-0.3%
General Government.....	801,776	791,568	794,491	(7,285)	-0.9%
Government Services.....	54,961	59,010	59,010	4,049	7.4%
Health.....	2,588,308	2,565,069	2,559,464	(28,844)	-1.1%
Healthy and Inclusive Communities.....	18,537	18,437	18,037	(500)	-2.7%
Human Resources.....	3,514	3,514	3,489	(25)	-0.7%
Invest NB.....	17,638	17,638	17,638	0	0.0%
Justice.....	42,699	42,699	42,619	(80)	-0.2%
Legislative Assembly.....	30,001	30,001	31,921	1,920	6.4%
Natural Resources.....	101,096	101,996	102,096	1,000	1.0%
Office of the Attorney General.....	18,178	19,234	18,558	380	2.1%
Office of the Premier.....	1,628	1,628	1,628	0	0.0%
Post-Secondary Education, Training and Labour.....	593,812	589,314	595,755	1,943	0.3%
Public Safety.....	145,468	162,568	173,710	28,242	19.4%
Service of the Public Debt.....	685,000	685,000	685,000	0	0.0%
Social Development.....	1,092,059	1,092,059	1,100,359	8,300	0.8%
Tourism, Heritage and Culture.....	41,218	41,218	41,053	(165)	-0.4%
Transportation and Infrastructure.....	273,447	283,072	283,072	9,625	3.5%
<b>Subtotal.....</b>	<b>7,919,660</b>	<b>7,914,245</b>	<b>7,978,929</b>	<b>59,269</b>	<b>0.7 %</b>
Tangible Capital Assets and Interaccount Transactions	(25,600)	(28,917)	(31,142)	(5,542)	21.6 %
<b>ORDINARY ACCOUNT EXPENSE.....</b>	<b>7,894,060</b>	<b>7,885,328</b>	<b>7,947,787</b>	<b>53,727</b>	<b>0.7 %</b>



# COMPARATIVE STATEMENT OF CHANGE IN NET DEBT

Thousands

\$

	Year Ending March 31			Variance from Estimate
	2015 Estimate	2015 1 <sup>st</sup> Quarter	2015 2 <sup>nd</sup> Quarter	
Surplus (Deficit).....	(391,125)	(387,263)	(377,170)	13,955
Acquisition of Tangible Capital Assets.....	(528,705)	(528,047)	(525,929)	2,776
Amortization of Tangible Capital Assets.....	<u>389,124</u>	<u>388,772</u>	<u>390,670</u>	<u>1,546</u>
(Increase) Decrease in Net Debt.....	<u>(530,706)</u>	<u>(526,538)</u>	<u>(512,429)</u>	<u>18,277</u>